

# Testimony of Andrew S. Natsios Administrator, USAID

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## Testimony Before the Subcommittee on Foreign Operations Committee on Appropriations U.S. Senate

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Chairman McConnell, members of the subcommittee: It is a privilege to be here today to discuss the efforts of the U.S. Agency for International Development to combat terrorism.

September 11 and the war on terrorism have brought the most fundamental changes to this country's security strategy since the beginning of the Cold War. This was the theme that Secretary of State Colin Powell brought to Congress in multiple testimonies this month and last. Recent events in Madrid - as in Indonesia, Morocco, the Philippines, Turkey, Uzbekistan, and Pakistan, among other places - underscore the urgency of his remarks and the global nature of this challenge. As President Bush said: "Defeating terrorism is our nation's primary and immediate priority." In a word, it is this generation's "calling."

This country is no longer tasked with managing a global political chessboard with two blocs of opposing armies and alliances. We face a challenge that is much more complex.

In September 2002, President Bush unveiled his National Security Strategy to address the unprecedented challenges that are facing the nation. It outlined the new direction in foreign policy that was required to respond effectively to what occurred the previous September. Among the tools that would be engaged in the new war was "development." Indeed, it was elevated as a "third pillar" of our foreign policy, along with defense and diplomacy. The global war on terror is the arena in which foreign aid must operate. This requires USAID to acknowledge its mission is broader than the traditional humanitarian and development response. We are challenged increasingly to deal effectively with failed states, transnational problems, and geostrategic issues.

In February of last year, the Administration issued the National Strategy on Combating Terrorism, which laid out a "4D strategy" in the War on Terror: (1) defeat the terrorists, (2) deny them resources and state sponsorship, (3) diminish the underlying conditions that terrorists seek to exploit, and (4) defend US citizens and interests at home and abroad. USAID's programs aim directly at both denying terrorists resources and diminishing the underlying conditions that terrorists exploit.

In both Iraq and Afghanistan, USAID has stood in the front lines of the most important battles in the new war. The outside world has little understanding of the devastation - physical and psychological - that these societies had suffered from decades of predatory and tyrannical governments and political fanaticism. USAID initiatives are helping the people of Iraq and Afghanistan reclaim their societies and together we are laying the groundwork for their rebirth.

Our country's post-war reconstruction efforts in Iraq are critical to the broader war on terror and remain a central priority of the Agency. Our achievements are significant, especially in light of the security situation and the desperate and on-going efforts of some to disrupt our progress.

To check the forces of terror and bring peace and stability to this dangerous region of the world, USAID is committed to the President's goal of seeing democratic governments come to Afghanistan and Iraq. It is a historic commitment that is rivaled only by the Marshall Plan, to which my Agency traces its origins.

The new challenges have prompted some of the more important internal reforms I have brought to USAID. A bureau of the Agency formerly focused on humanitarian crisis has been redesigned to deal with the vulnerability of

contemporary societies to conflict and breakdown as well as the shoring up of democratic governance around the world. The Office of Conflict Management and Mitigation has been created to provide analytical and operational tools in order to sharpen our responses to crises by better understanding the motivations, means, and opportunities for violent conflict to thrive.

Terrorists frequently thrive within an atmosphere of chaos. Conflict and state failure serve the purposes of terrorists by providing them with an opportunistic environment in which to operate. Regimes that are closed - politically and economically - foment a sense of hopelessness and multiply the number of aggrieved, who become easy recruits to the terrorist cause. It is the mission of my Agency to shore up the democratic forces of society and to help bring the economic reforms that are the most effective antidote to the terrorist threat and its appeal. We understand that this is not going to happen overnight and that our contributions are necessary but not sufficient alone: a fact clearly pointed out in the President's National Strategy for Combating Terrorism. The war on terror will be a long one, as the President reminds us, and it will take both resolve and long-term commitment.

USAID's higher profile in our foreign policy initiatives since the war on terror began can be measured in budgetary terms. The commitment to the Agency has been substantial and growing as we administer funds from a number of Foreign Affairs accounts. In FY 2003, for example, we administered a nearly \$14.2 billion portfolio, including supplemental funds for Iraq, which is up from \$7.8 billion in FY 2001. We are proud of this vote of confidence and anxious to make good on our daunting responsibilities.

The end of the Cold War and the challenges that now face USAID have prompted the most thoroughgoing reassessment of the country's development mission since the end of the Second World War. We are responding with a new understanding of the multiple goals of foreign assistance. Specifically, USAID now faces five distinct challenges:

- Supporting transformational development
- Strengthening fragile states and reconstructing failed states
- Supporting U.S. geo-strategic interests
- Addressing transnational problems
- Providing humanitarian relief in crisis countries

You may notice that "conducting the war on terror" is not one of the Agency's core goals. Each of these goals, however, is vitally relevant to what the President has called this nation's "primary and immediate priority." Let me take a moment to outline these challenges.

**Supporting transformational development.** In the developing world, USAID supports far-reaching, fundamental changes in institutions of governance, human services such as health and education, and economic growth. Through this assistance, capacity is built for a country to sustain its own progress. While these efforts have long been justified in terms of U.S. generosity, they must now be understood as investments in a stable, secure, and interdependent world.

**Strengthening failed and fragile states.** The President's National Security Strategy wisely recognizes the growing global risks of failing states when it said: "The events of September 11, 2001 taught us that weak states...can pose as great a danger to our national interests as strong states... poverty, weak institutions and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders." The failure of states such as Zaire, Afghanistan, Lebanon, Bosnia, Somalia, Liberia had repercussions far beyond their own regions. We are dealing with the consequences today.

There is perhaps no more urgent matter facing USAID's portfolio than fragile states and no set of problems that are more difficult and intractable. USAID has extensive experience in conflict and post-conflict situations, which uniquely equip us to play a constructive role in achieving stability, reform, and recovery in fragile states. I offer our experience in the Sudan as illustrative.

USAID boasts unparalleled expertise in Sudanese affairs. Our staff has spearheaded strategic interventions that have brought pockets of peace and intervals of tranquility which have allowed our humanitarian missions to move forward and peace to gain traction. They have helped coordinate policies with other nations that have brought this country to the doorstep of peace after more than a generation of civil war. Our goal is to bolster the peace, provide humanitarian relief, and spur recovery in order to maximize incentives for further development and now it is up to the Sudanese government and warring parties to pursue this path of opportunity that the U.S. government and other donors have helped to open.

**Supporting U.S. geo-strategic interests.** Aid is a potent leveraging instrument that can keep countries allied with U.S. policy. It also helps them in their own battles against terrorism. Our tasks today however, are broader and more demanding than just winning the allegiance of key leaders around the world. For example, while it is vital that we help keep a nuclear armed Pakistan from failing and allied with us in the war on terrorism, we must also help Pakistanis move toward a more stable, prosperous, and democratic society. Our support for reform of Pakistan's educational system and its political institutions is critical in this regard.

**Addressing transnational problems.** Global and transnational issues are those where progress depends on collective effort and cooperation among countries. Examples include HIV/AIDS and other infectious diseases, international trade agreements, and certain criminal activities such as trafficking in persons and the narcotics trade. USAID will continue to play a leading role on these issues, working with countries to help them address these problems so that they do not slip into instability and failure.

**Providing humanitarian relief.** The United States has always been a leader in humanitarian aid and disaster relief. We are the largest contributors of food aid that have fed the hungry and combated famine around the world. This is a moral imperative that has not changed. We must, however, do a better job of combining such assistance with longer term development goals. And we must make sure that the recipients are aware of help and U.S. generosity. This is particularly important in areas of the world subjected to anti-Americanism and terrorist propaganda.

I want to be clear. I in no way believe that terrorism is simply caused by poverty. Osama Bin Laden was by no means from a deprived background, nor were the perpetrators of 9/11. I do believe that there are certain conditions that are propitious to terrorists and their cause. Among these are: isolation, a lack of economic opportunity, weak institutions and governance, a lack of financial transparency and poor educational systems. Many of these issues are related and overlapping, but I'd like to discuss them each briefly, and outline some of our endeavors in these areas and the critical contributions they make to waging an effective war on terrorism.

1. **Isolation:** As the experience in Afghanistan indicates, remote and isolated areas of poorer countries are the most fertile grounds of terrorist fanaticism. These continue to be the strongholds of the Taliban.

Building roads has been an extremely effective means of combating the effects of isolation. USAID's signal achievement last year was the rehabilitation of 389 km of road that connects Kabul with Kandahar, an unprecedented engineering feat given the constricted time frame and insurgency threats. Approximately 35% of Afghanistan's population lives within 50 km of the highway, much of this agrarian and rural. Plans are being implemented to extend it to the city of Herat, where it will then arc back and reconnect with Kabul in one complete circuit.

Restoration of the road has been one of President Karzai's overriding priorities. It is crucial to extending the influence of the new government, now endowed with democratic legitimacy and bent on a new start for the country. When complete, it will help end the isolation that has sheltered the Taliban and fed terrorist insurgency. It will stimulate development and reconnect the country to a larger network of regional trade.

I am convinced that development has generally gotten off track in abandoning its commitment to road building, particularly in rural areas. Short term, it generates employment; long term, it serves development. In connecting more remote regions to the capital cities, it also spreads the modernizing forces of urban life to the hinterlands. And in places like Afghanistan or Pakistan, this can make a significant contribution to the war on terror. In other places like Nepal where we built roads decades ago, recent evaluations have shown that they have had an enormous impact in opening access to remote areas and countering the impact of insurgent groups.

Radios are another example of how we combat isolation. Afghanistan has a radio culture. USAID has restored radio transmission towers. It has also funded innovative programming and provided the capital to build private radio stations. For example, Radio Kabul has broken new ground with a program that appeals to the music tastes and concerns of the young, featuring a mix of female and male disk jockeys that are representative of the diverse ethnic groups in Afghan society. Such things were unimaginable under the Taliban and the programming popularity is testament to the country's new ethos.

In a similar vein, USAID is funding the so-called "Last Mile" initiative, which will bring rural and isolated populations into the information age via connection to the internet. Increased development and trade opportunities for such areas can also be pursued through such linkages to the outside world.

2. **Lack of economic growth and job creation:** We have learned that countries become vulnerable and subject to terrorist subversion when there are high rates of unemployment, particularly among males aged 15 - 35. This has been confirmed time and again by our experiences with fragile and failing states. Militias recruit from the ranks of restive and unemployed youths who are easily seduced into the criminal activities that support terrorism.

Our interventions in such countries have focused on various quick impact projects that generate employment as they help rebuild communities. In channeling the productive energies of such peoples, these programs also provide visible signs of hope that can counter the call of those who base their appeals on a sense of hopelessness. Indeed, programs such as "food for work" may be the only means of survival for backward or war-devastated communities. As we found out in Afghanistan, this is what stood between desperation and reliance on Taliban "charity."

The most potent weapon against terrorism, however, will come not from external aid but from the internal development of such societies. USAID is using a wide variety of programs that address the economic isolation that is imposed on them by law and custom, tenuous rights to property, multiple impediments to productive enterprise, and disenfranchisement. We take inspiration from the work of Hernando De Soto who seeks to integrate the untapped talents and tremendous energies of the marginalized by bringing them into the mainstream of their nation's economy. And we apply the lessons from the work of Michael Porter who seeks to unlock the potential latent in national economies by creating local conditions that foster business and job creation.

One of the most important aspects of our strategy to address the lack of economic opportunity has been trade capacity building activities. This includes supporting trade negotiations and helping counties take advantage of the opportunities for trade. Complementing our efforts in the World Trade Organization and in support of the Africa Growth and Opportunity Act, our trade capacity building programs help integrate countries into the world trading system. Our programs which support our trade negotiations from Central America to Southern Africa and beyond will help countries: a) implement the free trade agreements, furthering the rule of law and improving transparency, and b) benefit from the opportunities offered by those agreements.

In order for trade agreements to translate into investment opportunities, developing countries must have a sound business climate. In much of the developing world, however, it remains difficult to start and run a business. We are addressing some of the key issues related to property rights, contract enforcement, and rule of law—that are part of the enabling environment that allows businesspeople, investors, and farmers to build private enterprises and create wealth.

Another example is a report from Mindanao in the Philippines, where USAID has been working to provide economic opportunities and permanent private sector jobs for members of an insurgent group. Unsolicited, this prompted another armed group to offer to turn in their guns for a jobs program like the USAID program in a neighboring village. This is the kind of demand these programs can generate.

There is also the problem of choking off criminal activities like opium and poppy production that provides the livelihood for many people in different regions. Our experience in fighting coca production in Peru, Bolivia, and Colombia has shown us that the only effective strategy is to literally clear the ground for the licit crops that will feed the nation while aggressively pursuing eradication of the others.

In eradicating poppy, we eradicate what is a major source of funding for terrorists. We are also addressing what has turned into a plague for the region. While poppy was cultivated for export to the West as a weapon to undermine the fabric of society there, it has caused a raging addiction problem in Pakistan, Afghanistan, and Iraq.

3. **Weak Institutions and Poor Governance:** The terrorist threat also correlates closely with governance issues. This has a geographic dimension, when, typically, institutions of government and the services they provide have only the most tenuous presence in areas outside the capital. Where food is scarce and health service is minimal, the religious schools called madrassas will fill the void. USAID has made fortifying agriculture and reviving rural economies a priority. Our development programs are firmly committed to building networks of schools and health clinics and seeing that they are competently staffed. In Afghanistan, Iraq and elsewhere, we are installing management systems and teaching the skills that will modernize key government ministries. Other programs seek to foster competent political parties, parliaments, local government and judicial systems which ensure the rule of law.

Building and strengthening institutions has been at the center of our efforts in Afghanistan. We are supporting the electoral process, providing assistance for voter registration, political party development, and civic education. We are also expanding our rule of law program so that a new Constitution can be enforced and are heavily involved in supporting educational institutions at different levels and through a broad range of activities. In almost every country where USAID works, building up institutional capacity - whether it's supporting the Bank of Indonesia or the Indonesian Attorney General's office ability to combat money laundering or strengthening rule of law in Columbia - is central to our approach.

Terrorism also breeds in places where the government is present but is gripped by corruption. USAID considers the issue of corruption as central to our development mission. I have commissioned an agency-wide anti-corruption strategy which will move USAID's commitment to fighting corruption into all appropriate facets of agency operations. We have supported Transparency International almost from its inception and we work with a host of related NGO's in the field. We are developing innovative strategies in Washington and the field to counter the petty corruption that demoralizes the citizenry and encumbers their activities. The economic drag from such practices is literally incalculable.

We are also beginning to mount a more serious assault on the endemic, parasitic corruption of elites which, among other things, short-circuits effective development and deepens the resentments that terrorists so effectively mine. In making democratic change central to our foreign policy initiatives, we are not merely advancing a core value of our society but the most effective instrument of social regeneration in closed and corrupt regimes.

4. **Weak Financial Systems:** Related to weak governance is the problem of weak financial institutions and lack of financial transparency. Of particular significance to the war on terrorism are our efforts to reform banking and financial systems and install proper auditing practices that will track the monies that serve criminal activities and feed terrorist networks. Assistance efforts have helped pass legislation, set up financial crimes investigative groups, and trained bank examiners to identify and report suspicious transactions.
5. **Lack of Education and Training:** We believe that in the long-term, education is one of our most potent weapons against terrorism. To that end, we have designed programs specifically for the Muslim world that respond to the challenge posed by radical Islamism. One approach focuses on improving the performance of the secular educational system, to help it compete more effectively with radical schools. Radical schools have been particularly successful in countries where the public school system has deteriorated, leaving an educational vacuum. This has been dramatically illustrated in Afghanistan and Pakistan. We share the view of more enlightened Muslims that see the participation of women as key to modernization. And our educational programs are designed with due emphasis to this goal.

Finally, I would like to emphasize that the very presence of our Embassies and Missions in a host country can be a powerful educational force as well as a potent counterweight to the presence of terrorism and anti-Americanism. Secretary Powell last year paid tribute to our missions as among the best exemplars of American values and among the nation's most effective "ambassadors."

I would also like to cite the over 4,000 Foreign Service Nationals that work for USAID. I have been thanked by them on numerous occasions in my travels and they frequently express their gratitude for the "educational experience" that USAID afforded them. In addition, I believe that the impact of our training programs has been enormous. I am proud that among the legions of "graduates," both of our educational programs and of our foreign service national workforce (FSN), many have gone on to ministerial posts and other positions of influence in their countries. We welcome the vice-president of El Salvador as one, a former USAID FSN installed in office several weeks ago in what, from a US point of view, was a most promising election for the people of her country and inter-American relations.

I want to close with the following point. We at USAID are the chief instrument of what some call the nation's "soft power." I am not very fond of the phrase because it unintentionally implies weakness. In any case, the President signaled the importance of what we do when he called "development" a critical part of a triad of foreign policy instruments. Last week, he reminded us that the war on terrorism is eminently winnable, but that it will be long and tough. He has also referred to it as an "unconventional" war, one that will require a large measure of old fashioned resolve and fortitude as well as new thinking. He has charged my Agency with new challenges and unprecedented responsibilities. I consider it my most important task to respond to this "calling." U.S. Foreign Assistance is our nation's best offense against terrorism and instability now and in the long term.

This concludes my testimony, Mr. Chairman. I will be happy to answer any of your or the Committee's questions.